

FACILITY ASSOCIATION

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TO: MEMBERS OF FACILITY ASSOCIATION

**ATTENTION: CHIEF EXECUTIVE OFFICER
RISK SHARING POOL PROJECT MANAGERS**

BULLETIN NO.: F06 – 046

DATE: DECEMBER 8, 2006

SUBJECT: FACILITY ASSOCIATION REDESIGN UPDATE

As was highlighted at our Annual General Meeting earlier this year, Facility Association continues to work towards a redesign of the residual markets that will make greater use of Risk Sharing Pools. The focus of the redesign effort continues to be to reduce the risk, to the extent that's possible, of large numbers of Canadian auto insurance consumers facing residual market prices the next time the "cycle" turns.

At the December 5th Board of Directors meeting it was resolved that:

"The following business model be approved; that Facility Association management embark on the detailed design phase and necessary consultation with broker's associations and with Insurance Regulators; and that the target implementation date be January 1, 2008;

The parameters for the voluntary pool for new and renewal business are:

- 5% transfer limit set at the group of companies level
- 100% risk cession
- Sharing based on market share (exposure count basis)
- Industry-wide expense allowance by jurisdiction

To control usage of the FARM:

- Develop "High Risk" guidelines and encourage intermediaries to place risks falling outside the guidelines into the voluntary market

Bulletin F06-046
Facility Association Redesign Update

- Monitor FARM risks on an ongoing basis and work with companies, brokers associations, and regulators as needed
- Review FARM rules on an on-going basis so that non-FARM risks are “steered away” from FARM
- Management to prepare a plan that would fortify compliance with individual companies’ business declination rules."

Draft Plan of Operation amendments reflecting the above will be presented to the Facility Association Board of Directors at the next regularly scheduled Board of Directors meeting on February 15, 2007. Members are reminded that for Plan of Operation amendments to take effect, approval is required from the Board of Directors, a majority of the membership votes and the relevant regulatory authorities.

David J. Simpson, M.B.A., FCIP
President & C.E.O.